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FAIR

1948
Annual Report
FOOD FAIR STORES, INC.

Foreword

Most business reports relate principally to properties. Financial statements of corporations deal with dollars. They disclose the estimated worth of buildings, merchandise and other tangible things—not the value of the men and women who comprise the organization.

But Food Fair is primarily people, not properties. Men and women have made the Company what it is today. They will determine its destiny. We count among our major assets, though they do not appear in financial statements, all Food Fair folks—those on the front line in our supermarkets, together with those in our plants and offices.

With them stand those who have invested their savings so that our modern supermarkets could be built, merchandise bought and employees paid. Today the Company is owned, for the most part, by thousands of men and women in all walks of life all over the country. Many of our employees are stockholders. Our progress has stemmed in large part from the faith of all these people.

Farmers, processors and manufacturers also are critically important assets. Upon them we rely year after year for millions of dollars worth of quality products distributed to American homes through our supermarkets. These people, in turn, look to us for efficient distribution.

None of our "invisible" assets ranks higher than the goodwill of the American housewife whose purchases in our markets have increased nearly sixfold during the past decade. To merit and maintain our position as the family's friend is the job of all Food Fair people, working as a team for clean, friendly, economical supermarkets.

This is Food Fair's creed of service.

Contents

	PAGE
Foreword	2
Officers and Directors.....	4
President's Message	5
Sales	5
Earnings	5
Dividends	6
Operating Costs and Taxes.....	6
Working Capital	6
Properties	6
Food Fair People.....	8
Fiscal Year Change.....	8
Capitalization	8
Conclusion	8
Consolidated Statements of Earnings	9
Consolidated Statements of Surplus.....	10
Notes to Financial Statements.....	11
Accountants' Certificate	11
Consolidated Statements of Financial	
Condition	12
The Story of Food Fair.....	14
A Complex Business.....	16
Sales Promotion	18
Food Fair Folks.....	20
Food Fair Supermarkets.....	22

COVER: The retail food business extends from the rural farm to the urban family table. In the cover picture for this year's Annual Report the artist portrays a composite scene of the American farm and the large city for which it supplies nourishment through the medium of the modern food supermarket.



Food Fair Stores, Inc.

OFFICERS

Samuel Friedland.....	Chairman of the Board	Louis Stein.....	Vice-President and General Counsel
George Friedland.....	President	Herman Silver.....	Vice-President
Hess Kline.....	Vice-President and Treasurer	Myer M. Gordon.....	Secretary
Myer B. Marcus.....	Vice-President	B. F. Lieber.....	Assistant Secretary
Arthur Rosenberg.....	Vice-President	Joseph Rash.....	Assistant Secretary

DIRECTORS

George Friedland.....	Philadelphia, Pa.	James P. Magill.....	Philadelphia, Pa.
Samuel Friedland.....	Philadelphia, Pa.	Myer B. Marcus.....	Philadelphia, Pa.
Myer M. Gordon.....	Philadelphia, Pa.	Arthur Rosenberg.....	Philadelphia, Pa.
Hess Kline.....	Philadelphia, Pa.	Harold W. Scott.....	Philadelphia, Pa.
	Louis Stein, Union City, N. J.		

Transfer Agent

Registrar & Transfer Company
2 Rector St., New York, N. Y.
15 Exchange Place, Jersey City, N. J.

Registrar

Bank of the Manhattan Company
40 Wall Street, New York, N. Y.

EXECUTIVE OFFICES

2223 East Allegheny Avenue
Philadelphia 34, Pa.

The Common Stock Is Fully Listed on the New York Stock Exchange.

To Our Stockholders

It is a source of pride and inspiration that your Company's operating record from the beginning is largely a series of new annual records. The fiscal year ended December 31, 1948, was no exception. The year topped all others in volume of business, construction of Food Fair supermarkets, wages and salaries paid employees, and dividend payments to stockholders.

SALES

Our sales for the 53 weeks ended December 31, 1948, were \$142,035,602, or 16.47 per cent above the previous record high sales of \$121,765,206 for the 52 weeks ended December 27, 1947. Last year's volume was 5.8 times total sales of a decade ago.

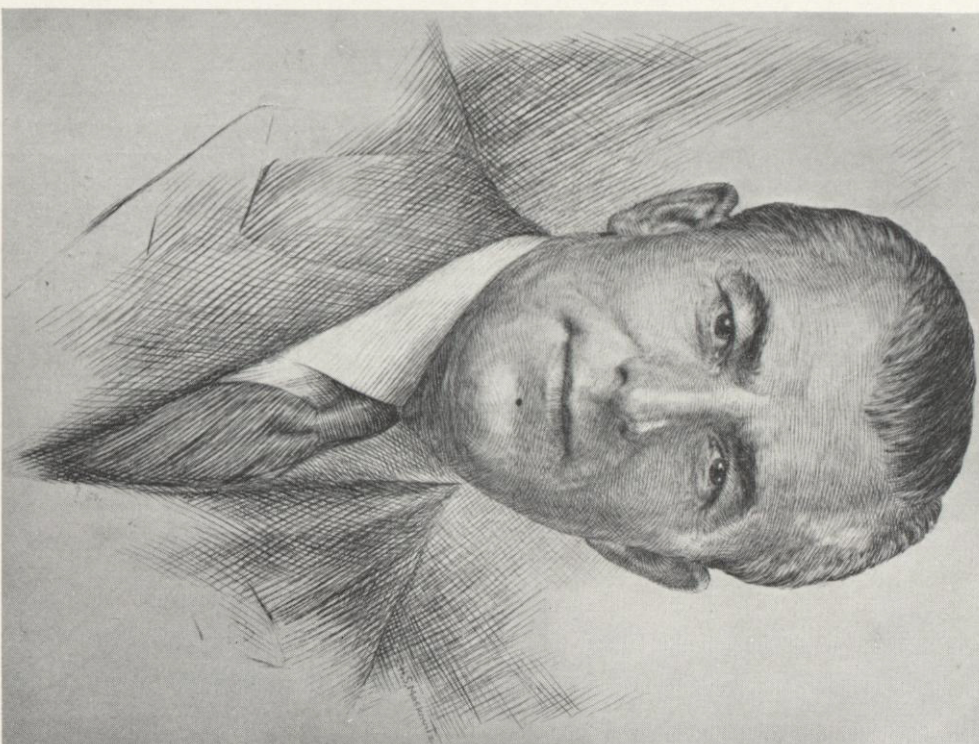
It is gratifying that we have maintained our position of leadership among the country's major retail food chains, as measured by per store sales. Average retail sales per store in 1948 exceeded \$1,100,000, calculated on the basis of the 106 supermarkets in operation at the close of the year. These units include several added late in the year.

EARNINGS

Profit margins in the retail food business in 1948 continued to recede from the abnormally high level they had reached in 1946. Our net income per dollar of sales amounted to 1.92 cents last year, compared with 2.33 cents in 1947 and with 3.60 cents in 1946.

Net income for 1948 was \$2,732,895 after all charges including federal and state taxes on income. This covered dividend requirements on the \$2.50 cumulative preferred stock 25.17 times.

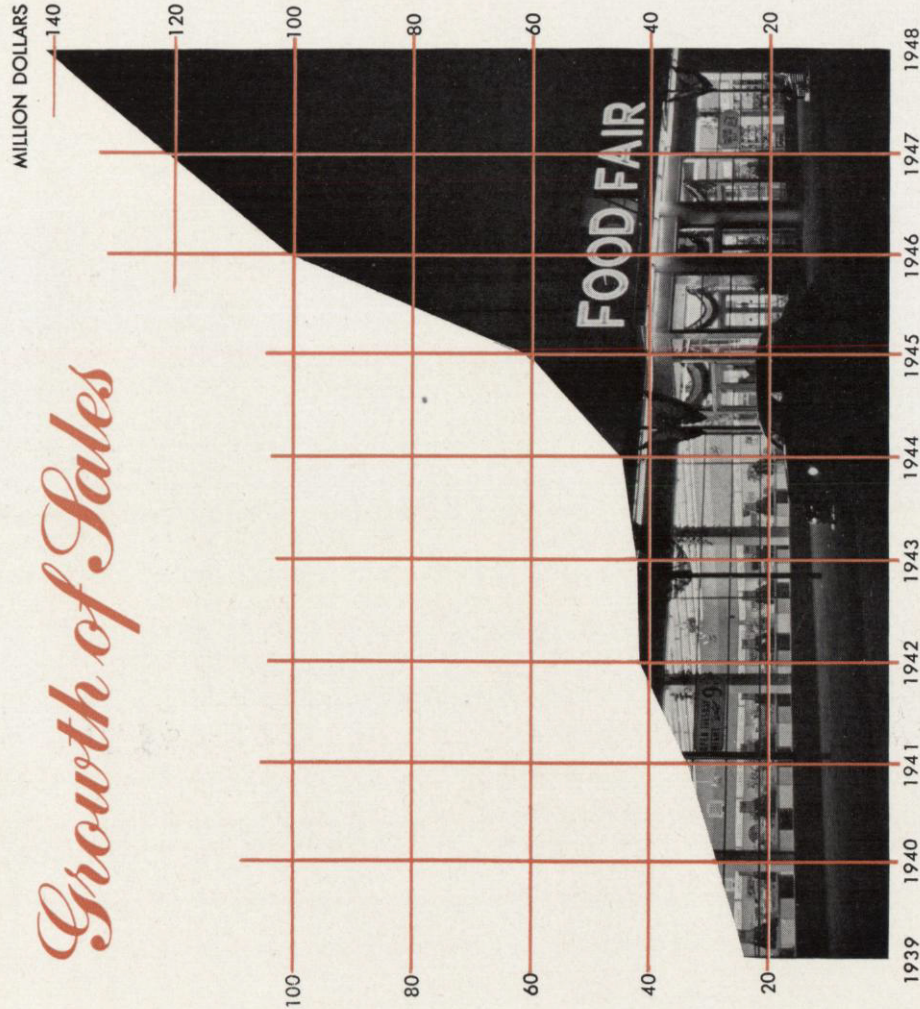
As in 1947, the number of shares of common stock outstanding increased in 1948 largely through the payment of a special dividend in stock and partly through the exercise of stock purchase options. Most of the increase took place in December.



Based on the 1,747,665 average number of shares outstanding during the year, net income in 1948 was equal after preferred dividend requirements to \$1.50 per common share. Calculated on the 1,842,769 shares outstanding on December 31, 1948, it was equal to \$1.42 per common share.

Net income earned after all charges and taxes in 1947 was \$2,846,347. This was equal to \$1.67 per share on the 1,640,051 average number of shares of common stock outstanding during the year, and to \$1.58 per share on 1,730,109 shares of common stock outstanding at the close of the year.

Growth of Sales



DIVIDENDS

Regular cash dividends at the annual rate of \$2.50 per share were paid during 1948 on the cumulative preferred stock, and regular cash dividends at the rate of 40 cents per share were paid on the common stock. On December 29 a special dividend in common stock was paid to holders of the common stock, at the rate of one share for each twenty shares. Similar distributions in stock were made in December, 1946 and 1947. We retained \$1,918,465 out of 1948 earnings to finance the construction of new stores, the remodeling of older units, the improvement of other facilities, and for general corporate purposes.

OPERATING COSTS AND TAXES

Operating costs increased throughout the retail trade in 1948, as in previous years. The largest single factor contributing to the increase was the increase in compensation of employees. Store wages, operating, general and administrative expenses of your Company totaled \$18,290,935 last year, an increase of 17.10 per cent over such expenses in 1947. These costs consist largely of payments to employees. The steady uptrend of hourly wages and total labor costs represents for management a serious challenge in the effort to obtain favorable operating cost and profit ratios.

Taxes also take a heavy toll of income. The \$1,723,413 set aside out of our 1948 income to provide for taxes on income alone represents \$16,259 per store operated at the close of the year, or more than \$273 for each regular employee at the year's end, or nearly \$1.00 per common share.

WORKING CAPITAL

Our working capital at the close of 1948 was \$10,571,572. Current assets of \$15,588,968 were 3.10 times current liabilities of \$5,017,396. Inventories, taken at the lower of cost or market value, were \$9,684,200, as against \$10,695,608 at the close of the 1947 fiscal year. Physical inventories at the close of 1948 were smaller than a year earlier despite increased sales and the larger number of supermarkets operated.

PROPERTIES

A net increase of eleven Food Fair supermarkets was made during 1948, bringing to 106 the total number of units in our chain at the end of the year. The new stores are among the largest in volume in the chain. All of them contain the most modern food merchandising innovations, including complete prepackaging facilities and special "speed" check-out booths to expedite the flow of shopping traffic.

Most significant of the store additions made last year was the unit opened in Atlantic City on June 30. This was the

one hundredth Food Fair supermarket. Another important milestone was passed in that month when our chain of stores was extended to Florida. At the close of the year two Food Fair markets were in operation in Miami and one in Coral Gables. Another was added in Miami on January 4, 1949, and still another on February 9.

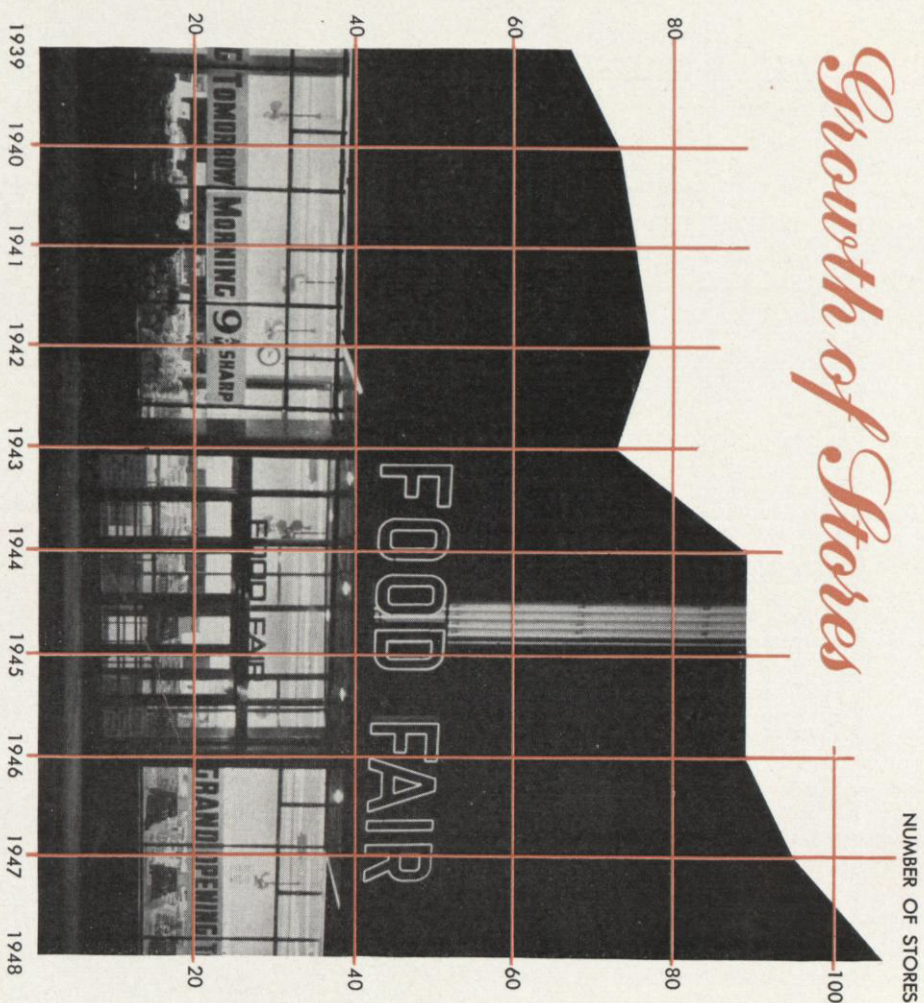
Of significance, too, was the opening on October 20, 1948, of the first of two Food Fair supermarkets at the New York Life Insurance Company's 3,000-suite building project at Fresh Meadows, Long Island, New York. Our second unit is scheduled to be added there soon. Food Fair is proud to have been selected to provide two modern retail food department stores at that modern residential colony.

Your Company during 1948 sold premises in which it now operates eight supermarkets and one warehouse, and entered into leases covering the premises for terms of approximately twenty-five years, exclusive of renewal options. We have the option to purchase each of the premises, after the tenth year, for a sum which decreases annually and is at all times less than the price at which the premises were sold. Seven of the nine properties were sold to large life insurance companies. Two properties, including a Miami warehouse, were acquired by The Pennsylvania Company for Banking and Trusts, as trustee under your Company's incentive bonus and retirement plan. The sale and re-renting of such properties on favorable terms is designed to minimize Food Fair's real estate investments and to conserve liquid resources for operation of the business.

Seven stores were completely remodeled during 1948. Both the newly constructed and the remodeled supermarkets have been contributing importantly to the increase in total sales. Building developments are being studied constantly with a view to acquiring supermarket sites in new, growing communities. Merchandising innovations are studied critically so that store operations can further be streamlined and more efficient techniques adopted.

A coffee roasting plant capable of servicing the entire chain of stores was installed in 1948 at our main Philadelphia

Growth of Stores



plant. To handle our expanding volume of business, 28,858 square feet of floor space were added during the year to our executive office building in Philadelphia, thus increasing the building's floor space by approximately 50 per cent. The new facilities include a cafeteria for employes which is capable of accommodating 550 persons during the luncheon period. The cafeteria is operated on a non-profit basis and is managed by a professional catering service which receives a fee. It is designed to provide the highest quality food at the lowest possible prices. This is accomplished by supplying our Food Fair food at cost. Employes have received the new facilities with enthusiasm.

FOOD FAIR PEOPLE

No phase of our business is of greater satisfaction to the management than its relations with employees. During 1948 our rate of employment turnover declined 13 per cent. Our employe training program was further broadened, and a considerable number of employes were promoted. The resignation of Major General James A. Ulio, former Adjutant General of the United States Army, as Vice-President, was accepted with regret, effective December 31, 1948.

FISCAL YEAR CHANGE

Directors of your Company have voted to adopt, effective in 1949, a fiscal year ending on the Saturday nearest April 30 in each year. The step is designed to improve operating efficiency. Although our regular annual meeting of stockholders is scheduled for April 19, 1949, the change in fiscal year will necessitate the holding of future annual meetings of stockholders, commencing in 1950, on the third Tuesday in August or on such other date in August as the Board of Directors may set. Directors elected at the annual meeting in April, 1949, will hold office until their successors are elected at the annual meeting of stockholders in August, 1950.

CAPITALIZATION

As of December 31, 1948, there were outstanding 1,842,769 shares of common stock and 42,345 shares of \$2.50 cumulative preferred stock. During the year the number of preferred shares was reduced by 2,716 in line with the purchase plan provided for when the stock was issued. The number of common shares was increased by 112,660. Of these, 87,693 shares were issued as a 5 per cent stock dividend paid December 29, 1948, on the common stock, supplementing regular cash payments. The remaining 24,967 shares were issued incident to the exercise of stock purchase options and on consolidation of scrip for previous stock dividends.

In May, 1948, your Company obtained a \$5,000,000 revolving credit from The Pennsylvania Company for Banking and Trusts, Philadelphia, and from The Chase National Bank of the City of New York. The credit, which bears a 3 per cent

interest rate and which was used to retire bank loans, was outstanding in the amount of \$2,000,000 at the close of 1948. Long-term debt was reduced by \$3,093,204 during the year.

Because your Company's operations in New York and Florida had become so extensive, our activities in each of these states were allocated on December 31, 1948, to two newly formed, wholly owned subsidiaries—Food Fair Stores Corporation in New York and Florida Wholesale Grocery Co., Inc., in Florida. Two former subsidiaries, Big Bear Food Stores, Inc. and Food Lane, Inc., were liquidated and their New York and Florida assets were transferred to Food Fair Stores Corporation and Florida Wholesale Grocery Co., Inc., respectively. Activities formerly conducted outside of New York and Florida by Big Bear Food Stores, Inc., now are being carried on by the parent Company.

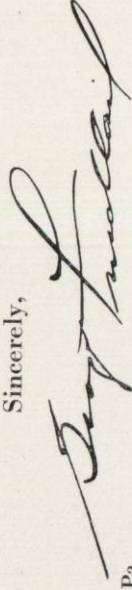
CONCLUSION

Several Food Fair supermarkets now are under construction in Florida, Pennsylvania and New York. Other units are scheduled to be built. In addition, we propose to continue our program of extensive remodeling of older units in the chain.

Broad decline in food prices has accompanied the increase in farm products during the past year. Further drop in prices would be welcome in that it would permit the American housewife to stretch the family food dollar and to improve dietary standards. This factor, together with a prospective high level of national income, augurs for a well-maintained volume of business in the retail food field.

Your Company's sales since the close of 1948 have been well in excess of the volume of the same period a year ago. Our financial condition is strong. Our growth, though fast, has been along sound lines. Our store chain consists of large, efficient, self-service supermarkets, exclusively, and we see cause for confidence in viewing the future.

Sincerely,



Philadelphia, Pa.
March 28, 1949

President.

CONSOLIDATED STATEMENTS OF

Earnings

Food Fair Stores, Inc. AND ITS SUBSIDIARY COMPANIES

	53 Weeks Ended December 31, 1948	52 Weeks Ended December 27, 1947
SALES	\$142,035,602	\$121,765,206
COST OF SALES:		
Inventory, Beginning of period	\$ 10,557,633	\$ 9,245,127
Purchases	115,968,718	100,654,796
Total	\$126,526,351	\$109,899,923
Less: Inventory, End of period	9,557,791	10,557,633
Cost of Sales	\$116,968,560	\$ 99,342,290
GROSS PROFIT FROM SALES	\$ 25,067,042	\$ 22,422,916
OPERATING EXPENSES:		
Maintenance and repairs	\$ 559,536	\$ 549,420
Depreciation of equipment and buildings and amortization of improvements	593,548	400,462
Taxes, other than taxes on income	536,255	406,082
Rents	569,643	680,601
Store wages, operating, general and administrative expenses	18,290,935	15,620,338
Total operating expenses	\$ 20,549,917	\$ 17,656,903
PROFIT FROM OPERATIONS	\$ 4,517,125	\$ 4,766,013
OTHER INCOME AND (CHARGES) :		
Rents received	\$ 116,765	\$ 122,636
Profit on sales of securities, property, etc.	27,898	(63,612)
Miscellaneous income	44,978	23,623
Total other income	\$ 189,641	\$ 82,647
PROFIT BEFORE INTEREST EXPENSE	\$ 4,706,766	\$ 4,848,660
INTEREST EXPENSE:		
Interest on debentures	\$ 102,801	\$ 108,500
Interest, other	139,852	28,558
Debenture discount and premium	7,805	8,369
Total interest expense	\$ 250,458	\$ 145,427
NET INCOME BEFORE FEDERAL AND STATE TAXES ON INCOME	\$ 4,456,308	\$ 4,703,233
FEDERAL AND STATE TAXES ON INCOME:		
Federal income tax	\$ 1,622,148	\$ 1,768,359
State income taxes	101,265	88,527
Total Federal and State taxes on income	\$ 1,723,413	\$ 1,856,886
NET INCOME	\$ 2,732,895	\$ 2,846,347

NOTE: In accordance with the terms of the issuance of the cumulative preferred stock, \$100,000 of the foregoing net earnings was set aside during the year 1948 for the purchase and retirement of such stock.

Food Fair Stores, Inc.

AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF

Surplus

53 Weeks Ended
December 31, 1948

CAPITAL SURPLUS

CAPITAL SURPLUS, DECEMBER 27, 1947.....	\$4,573,216
ADDITIONS:	
Proceeds received from issuance over par value of 3,200 shares of common stock through exercise of purchase warrants attached to cumulative preferred stock.....	16,800
Proceeds received from issuance over par value of 19,732 shares of common stock through exercise of stock options by employees.....	76,462
Excess over amount assignable to capital stock of 2,034 12/20 shares of common stock issued as a stock dividend upon exercise of employees' options.....	22,307
Excess over amount assignable to capital stock of 87,693 11/20 shares of common stock issued as a stock dividend December 29, 1948.....	789,242
Total.....	<u>\$5,478,027</u>
DEDUCTIONS:	
Excess of cost of 2,716 shares of cumulative preferred stock redeemed over par value.....	86,927
CAPITAL SURPLUS, DECEMBER 31, 1948.....	<u>\$5,391,100</u>

EARNED SURPLUS

EARNED SURPLUS, DECEMBER 27, 1947.....	\$4,992,987
ADDITIONS:	
Net income for the year (53 weeks) ended December 31, 1948.....	2,732,895
Total.....	<u>\$7,725,882</u>
DEDUCTIONS:	
Excess cost of 1,335 shares of cumulative preferred stock redeemed over proceeds received at issuance thereof	\$ 350
Adjustments applicable to prior years.....	6,846
Dividends paid:	
In stock:	
89,728 3/20 shares of common stock.....	901,277
In cash:	
Common stock, \$.40 per share.....	698,675
Cumulative preferred stock, \$2.50 per share.....	108,558
	<u>\$1,715,706</u>
EARNED SURPLUS, DECEMBER 31, 1948:	
Appropriated for retirement of preferred stock.....	\$ 575,125
Unappropriated.....	<u>5,435,051</u>
	<u>\$6,010,176</u>

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 1948

NOTE 1. The Corporation covenants in the indenture that it will pay to the trustee on each June 15 and December 15, as a sinking fund for the redemption of debentures, a sum in cash in each instance sufficient to redeem on the next succeeding interest payment date at the sinking fund redemption price then in effect the following principal amounts of debentures: to and including December 15, 1949, \$80,000.00; thereafter, to and including December 15, 1951, \$90,000.00; thereafter, to and including December 15, 1952, \$100,000.00; and thereafter, to and including June 15, 1958, \$110,000.00. The indenture provides that the Corporation may deliver to the trustee debentures in lieu of cash.

NOTE 2. The Corporation covenants in the indenture that it will not declare or pay or set aside any dividends (other than dividends payable in shares of capital stock of the Corporation) on any of its capital stock of any class or purchase, redeem or otherwise retire any shares of its capital stock of any class or make any other distribution (except in shares of its capital stock) in respect thereof, or permit any subsidiary to purchase such capital stock, unless immediately thereafter and after giving effect thereto:

(1) The aggregate amount of dividends declared and paid or payable on capital stock of the Corporation subsequent to December 31, 1943 (exclusive of dividends paid or payable in shares of capital stock of the Corporation) plus the aggregate amount used for such purposes, redemptions, retirements, or any other distributions subsequent to December 31, 1943, shall not exceed the sum of (a) consolidated net income subsequent to December 31, 1943, plus (b) \$350,000.00; and

(2) Consolidated net current assets shall be at least equal to 150% of consolidated funded indebtedness.

NOTE 3. In accordance with the resolution of the Board of Directors in connection with the issuance of the \$2.50 cumulative preferred stock, the Corporation shall not declare, set apart or pay dividends:

(1) Upon common stock;

(a) Until all dividends have been paid on preferred stock.

(b) If the payment of such dividends on common stock would reduce the ratio of consolidated current assets to consolidated current liabilities to less than $1\frac{1}{2}$ to 1, or so long as the ratio of consolidated current assets to consolidated current liabilities shall be less than $1\frac{1}{2}$ to 1.

(c) If the Corporation shall be in default in making any sinking fund or purchase fund payments required for the redemption or purchase of any preferred stock.

Officers and Directors
Food Fair Stores, Inc.:

We have examined the Consolidated Statement of Financial Condition of Food Fair Stores, Inc., and its wholly owned subsidiary companies at December 31, 1948, and the Consolidated Statements of Earnings and Surplus for the year (53 weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying Consolidated Statement of Financial Condition and related Consolidated Statements of Earnings and Surplus present fairly the consolidated position of the companies at December 31, 1948, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Philadelphia, Pa.
February 10, 1949

ACCOUNTANTS' CERTIFICATE

(d) Out of any capital or surplus accounts, including earned surplus, as said accounts appeared on the books of the Corporation and its subsidiaries, as at December 31, 1939, except that the earned surplus account thus restricted at that date may be reduced by (a) any sum transferred from earned surplus to capital surplus in connection with the redemption or purchase and retirement of the Corporation's \$1.37½ cumulative convertible preferred stock (since redeemed) and (b) the excess, if any, paid on the redemption or acquisition and retirement of each share of \$2.50 cumulative preferred stock over the gross proceeds from the sale of each share of said stock (less only underwriting discounts and commissions) and to be charged to earned surplus. The amount of earned surplus thus restricted from the payment of dividends at December 31, 1948 was \$540,331.22.

(2) Upon any class of stock, so long as any of said preferred stock is outstanding:

Out of that portion of capital surplus which represents the excess of the gross proceeds from the sale of each share of said preferred stock (less only underwriting discounts and commissions) over and above its par value.

NOTE 4. Options granted to certain employees and officers of the Corporation are outstanding to purchase before September 4, 1950, 82,408 shares of common stock at \$4.87½ per share. In connection therewith, 12,989 10/20 shares of common stock are reserved for issuance as stock dividends upon exercise of these options.

Of the options originally issued to employees and officers, 77,592 were exercised during the years 1946, 1947 and 1948.

The Company has been advised by counsel that these options were not compensation to the employees, and that, therefore, neither the value of said options when issued, nor the difference between the option price and the market value of the underlying stock on their exercise, was taxable to the individuals as compensation or deductible by the Company as an expense.

In the event the Treasury Department does not acquiesce in this view, the Company, to protect its position with respect to the deduction by reason of options exercised during the years 1946, 1947 and 1948, intends to file amended Federal Income Tax returns prior to the effective date of the applicable Statute of Limitations, claiming appropriate deductions from its taxable income as originally reported. The amounts of tax refunds resulting from such amended returns would be approximately \$190,000.00 for 1946, \$40,000.00 for 1947, and \$64,000.00 for 1948.

LAVENTHOL, KREKSTEIN & CO.

Food Fair Stores, Inc.

AND ITS SUBSIDIARY COMPANIES

ASSETS

December 27, 1947

December 31, 1948

CURRENT ASSETS:

Cash on hand and demand deposits.....
 Obligations of the United States, at cost.....
 Accounts receivable.....
 Inventories, at cost or market, whichever lower:
 Merchandise in warehouses.....
 Merchandise in stores.....
 Merchandise in transit.....
 Store supplies.....

Notes receivable and advances, truckers.....

Total current assets.....

OTHER INVESTMENTS, AT COST.....

NET REFUND CLAIM FROM "CARRY-BACK" OF UNUSED EXCESS PROFITS TAX CREDIT.....

FIXED ASSETS, AT COST:

Land.....
 Buildings.....
 Improvements to leased buildings.....
 Fixtures and equipment.....
 Automobiles and trucks.....

Total depreciable assets.....

Less: Reserves for depreciation and amortization.....

Net fixed assets.....

PREPAID AND DEFERRED ACCOUNTS.....

DEPOSITS WITH LANDLORDS, PUBLIC UTILITIES, ETC.....

CASH SURRENDER VALUE OF INSURANCE ON LIFE OF OFFICER.....

Total assets.....

\$ 5,250,874
 1,240
 643,054

5,451,113
 3,509,950
 596,729
 126,408

\$ 9,684,200
 9,600

\$15,588,968

\$ 13,170

.....

\$ 40,131

\$ 1,769,241

\$ 3,268,568
 1,370,429
 3,950,909
 81,316

\$ 8,671,222

2,516,419

\$ 6,154,803

\$ 7,924,044

\$ 623,565

37,714

52,842

\$24,240,303

\$24,552,310

The notes appearing on page 11 are an integral part of the Consolidated

CONSOLIDATED STATEMENTS OF

Financial Condition

LIABILITIES AND CAPITAL

	December 31, 1948	December 27, 1947
CURRENT LIABILITIES:		
Accounts payable, trade, etc.....	\$ 2,247,066	\$ 2,225,916
Mortgage installments due within one year.....	59,782	39,342
Debenture sinking fund payments (Notes 1 and 2)	162,300	162,500
Accrued liabilities:		
Salaries and wages.....	462,823	431,509
Interest on debentures.....	42,000	44,479
Miscellaneous	87,480	117,726
	\$ 592,303	\$ 593,714
Social security and withholding taxes payable.....	232,531	264,834
Federal and State income taxes payable (Less \$1,000,000 United States Treasury Savings Notes, Series C, at December 27, 1947)	1,723,414	856,886
	\$ 5,017,396	\$ 4,143,192
LONG-TERM LIABILITIES:		
Notes payable (at December 31, 1948: due May 10, 1950; at December 27, 1947: due March 24, 1949)	\$ 2,000,000	\$ 5,000,000
Mortgages payable, due after one year (at December 31, 1948: \$563,302 not assumed; at December 27, 1947: \$567,300 not assumed)	698,686	631,890
Fifteen year sinking fund debentures 3½ per cent due February 1, 1959, net of \$160,000 principal amount of debentures to be retired through sinking fund in 1949 included in current liabilities (Notes 1 and 2)	2,645,000	2,805,000
	\$ 5,343,686	\$ 8,436,890
Total long-term liabilities.....	\$10,361,082	\$12,580,082
CAPITAL:		
Capital Stock:		
Cumulative preferred, par \$15.00, authorized 193,815 shares (specific preferences determinable upon approvals of issue) of which 48,815 shares were issued; outstanding: at December 31, 1948, 42,345 shares; at December 27, 1947, 43,061 shares; dividend \$2.50 annually; redeemable at \$53.00 per share; entitled to \$50.00 per share in involuntary liquidation (Note 3)	\$ 635,175	\$ 675,915
Common, par \$1.00, authorized 2,500,000 shares; issued: at December 31, 1948, 1,842,769 8/20 shares; at December 27, 1947, 1,730,109 5/20 shares (including scrip certificates) (Note 4)	1,842,770	1,730,109
SURPLUS:		
Capital surplus	\$ 5,391,100	\$ 4,573,217
Earned surplus:		
Appropriated for retirement of preferred stock	\$ 575,125	\$ 475,125
Unappropriated	5,435,051	4,517,862
	\$ 6,010,176	\$ 4,992,987
	\$13,879,221	\$11,972,228
	\$24,240,303	\$24,552,310
Total capital		
Total liabilities and capital.....		

Statement of Financial Condition and should be read in connection therewith.



The Story of Food Fair

The story of Food Fair Stores, Inc. goes back to 1921 when young Samuel Friedland opened a small meat market in Harrisburg, Pa. The story of evolution from a one man-one market venture to a chain of more than one hundred large food department stores extending from New York to Florida is a story with a prologue of limited capital, unlimited courage.

Curiously enough, Food Fair's major milestones have been set in years of general adversity. The founding year, 1921, was one of low business barometers. So were the critical years just after 1929—years in which the number of stores operated was more than doubled. And it was in 1932, a year of industrial stagnation and financial crisis, that Food Fair elected to scrap the conventional concept of retail food marketing and to substitute for it a radically different concept.

It was in 1932 that the decision was reached to close all of the 35 small stores then operated and to open in their stead big, self-service supermarkets where the housewife could obtain all of her food requirements at low cost under a single roof and pleasant shopping conditions. The supermarket's advantages, it was felt, would include wide variety of products; convenient store layout; modern equipment; scientific warehousing; skilled personnel scrupulously trained in courteous service; economy of concentrated buying and mass distribution; rapid turnover of inventories, and efficient marketing of the nation's food.

The change from small stores to huge supermarkets was completed within five years. In 1938 the last of the 35 small links in the original chain was dropped and blueprints were drawn for the 35th link in the new chain of self-service supermarkets.

In 1939 the number of the Company's supermarkets was nearly doubled, to 67. New units were constructed and two entire chains were acquired—a chain of 13 King Arthur markets in New Jersey and a chain of five units in Baltimore, Md. Then, in 1940, the doors were opened at six new locations, bringing the total to 73, where it stood three years later.

Not until 1944 was expansion resumed on an important scale. In that year the 89th unit in the chain was added through the purchase of 17 "Big Bear" markets located in New Jersey and New York. Then, the Food Fair store family remained unchanged until 1947, when a net increase of six stores was made, followed by eleven units added in 1948.

Other factors have contributed to the Company's growth. As new supermarkets have been added to the chain, existing stores have been remodeled, and such newer lines as drugs, toiletries, cosmetics and tobaccos have been added. Slaughtering facilities have been acquired, and prepackaging methods and other modern merchandising techniques have been adopted. In addition, executive office and warehousing facilities have been expanded.

Food Fair's properties, taken as a whole, are among the most modern in the trade. Many key men, among the youngest in the field, were the original organizers of the Company. The current expansion program means that the Company's contribution to the sustenance and comforts of the American family should increase in years ahead. Like the growth preceding it, this program has been based on the belief that efficiency in food distribution must accompany economic and social progress.



1921



1948

A Complex Business

The retail food business is the biggest business on earth. It is a complex business. It extends from the purchase of cattle and other food products grown on the rural farm to the sale of prepackaged, quality foods on a mass scale in the large metropolitan area.

It is a fast moving business in which success depends upon the ability to maintain a constant flow of high quality, low cost foods. Coordination is a prime essential of volume distribution. This factor must govern the location and layout of individual supermarkets as well as the arrangement of arteries to supply them.

Our Company's distribution features precise coordination between our buying and processing operations and our many supermarkets. This permits of rigid inventory control and the supplying of supermarkets with the right merchandise

in the right quantities at the right time, to insure against waste and shortages.

Adequate warehouse facilities are the key to a smooth flow of merchandise. Nine Food Fair warehouses, located in five cities are the connecting links between farmers, processors and manufacturers, on the one hand, and our supermarkets, on the other. The largest of the five, adjoining the executive offices in Philadelphia, is one of the country's largest one-story food warehouses.

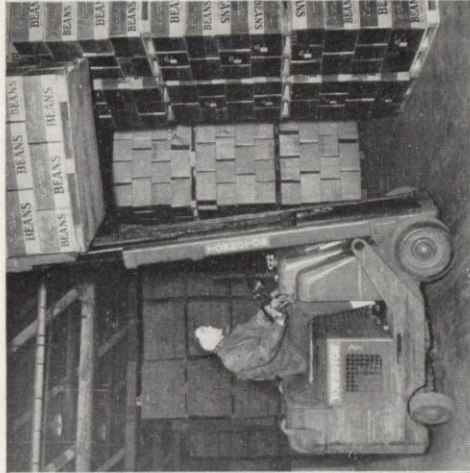
Through it flow each week thousands of tons of merchandise in thousands of classifications, from hundreds of suppliers. Truck-trailers, tractors, fork trucks and belt conveyors are part of its essential equipment. Extensive refrigeration, egg candling, coffee-roasting, salad kitchen and packaging facilities are economical adjuncts.



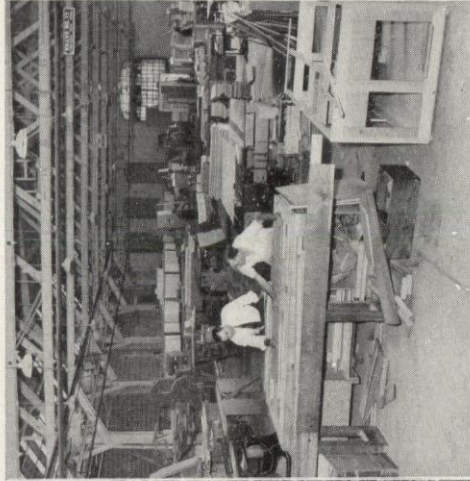
Food Fair cattle at plant pens



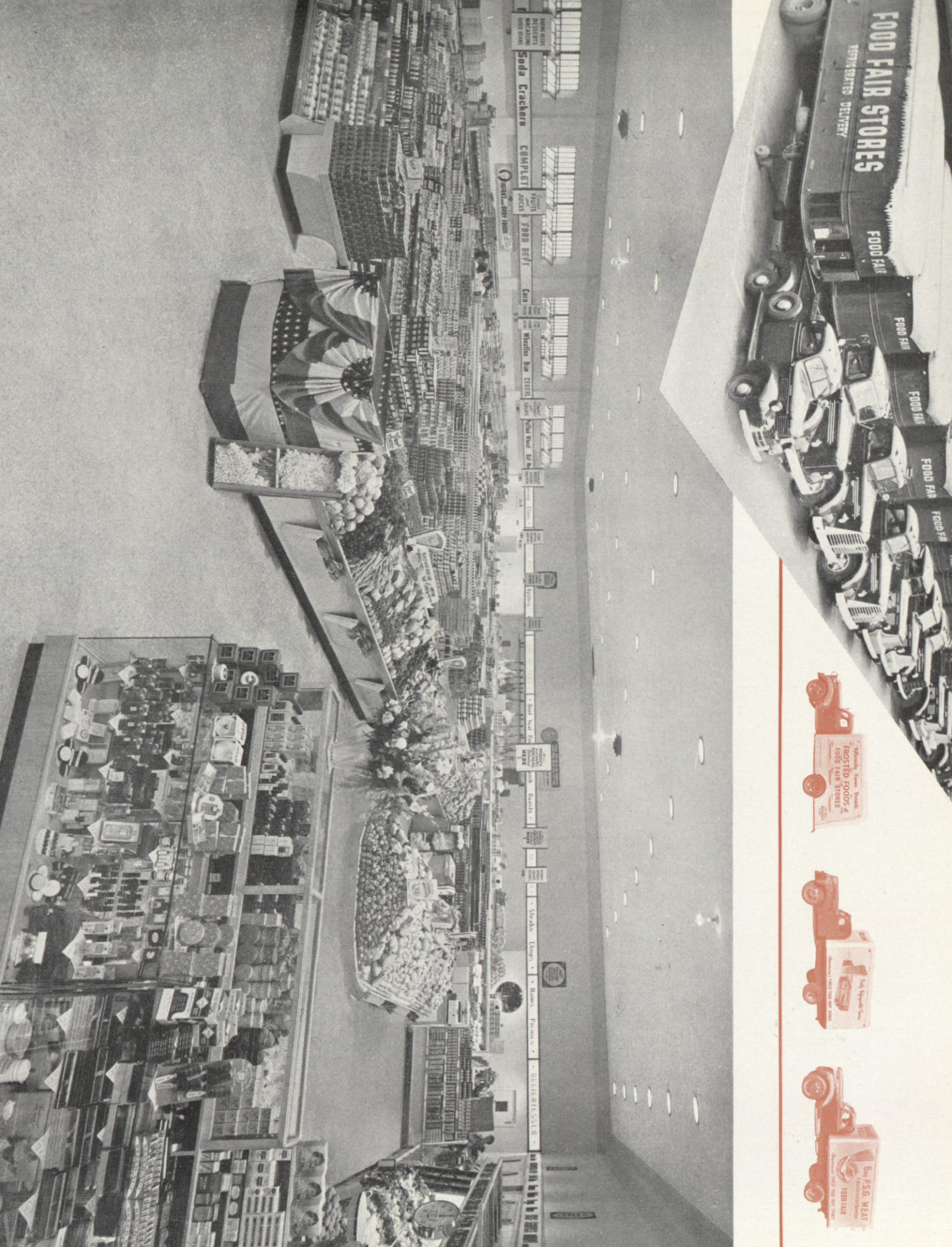
Beef rolls to warehouse refrigerators



Mass merchandising—mass warehousing



Carpenter shop creates store fixtures



IN THE INTEREST OF
PROGRESSIVE FOOD MERCHANDISING
THE MEN AND WOMEN OF
FOOD FAIR STORES, INC.,
DEDICATE THIS MODERN
FOOD DEPARTMENT STORE
TO THE PEOPLE OF
BALTIMORE
MARYLAND
AUGUST 31, 1948

Sales Promotion

Don't sell the steak—sell the sizzle!

Food Fair follows this sound formula. It is not enough for us to offer the highest quality foods at the lowest possible prices in clean, friendly, convenient supermarkets. It is equally necessary that the shopping public be constantly apprized of the fact. To impress the American housewife with the advantages of our supermarkets is the job of the advertising and sales promotion department.

Many media are employed in cultivating patronage. They include newspapers, radio, television, billboards, handbills, point of sale displays and window posters. Full page or part-page Food Fair advertisements appeared during 1948 in scores

of newspapers with an average daily circulation of 3,000,000 copies. In addition, more than 13,000,000 circulars were distributed during the year, house-to-house, in selected trading areas in our various marketing communities.

Experimentation with promotion innovations goes on constantly. Radio is an effective instrument in daily sales promotion. This medium, together with television broadcasting, contests, carnival shows and food shows, are emphasized in connection with the opening of supermarkets. A bronze plaque attached to the structure dedicates our new supermarket to the people of the community in the interest of progressive food merchandising.

Handbills are distributed from house to house

Billboards in this motor age present Food Fair

Daily newspapers carry Food Fair messages

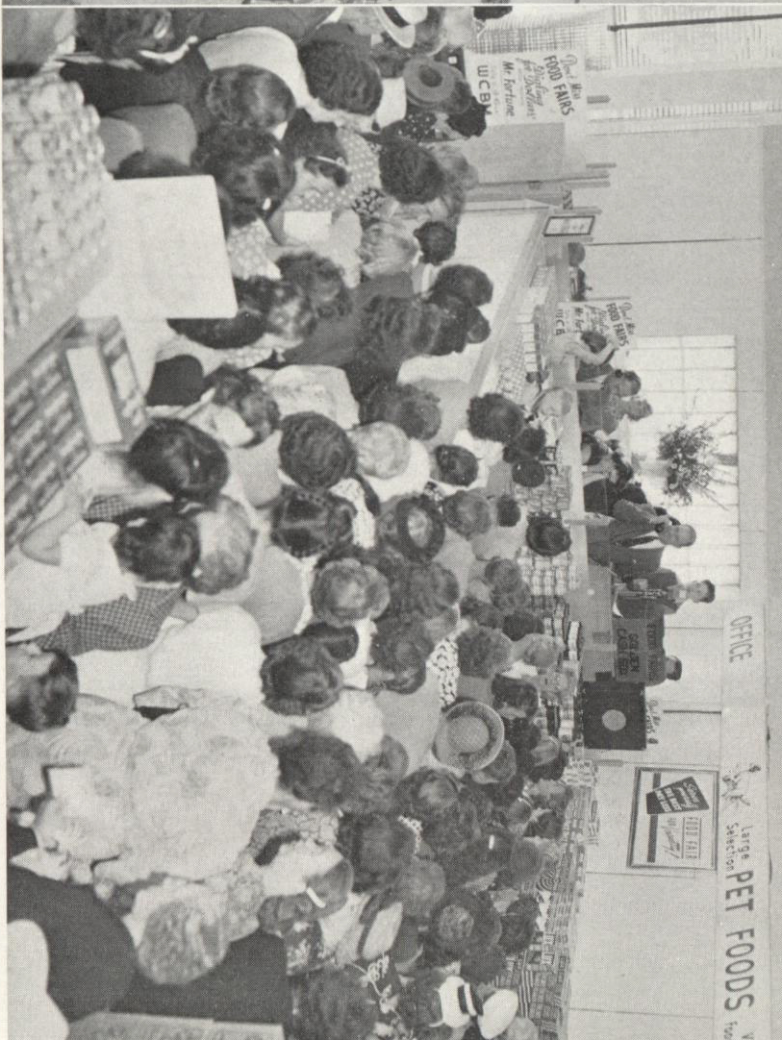




Food Show Tent at new Food Fair supermarket attracts throngs



Carnival show at Food Fair provides New Look



Radio program is broadcast from new Food Fair supermarket



Television, most modern communications science, promotes Food Fair



Food Fair Folks

Personnel policy is the cornerstone of Food Fair's overall merchandising policy. Our personnel policy stems from the mutuality of interest between our Company and our more than 6,200 employees. It is based on the premise that growth of the Company is dependent upon the development, progress and contentment of the individual worker.

Employees are offered every opportunity for promotion, in keeping with our basic "promotion from within" policy. Extensive training courses are conducted. Especial emphasis is placed on courtesy. Awards for courtesy are made to individual districts, supermarkets and employees under our continuous "Always Be Courteous" program. Employees are selected for awards by their store associates.

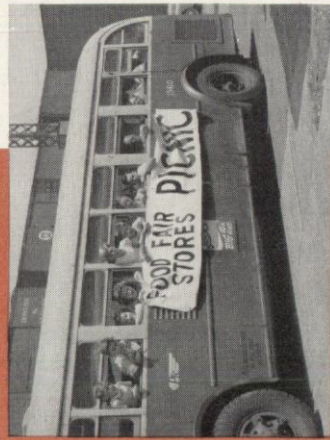
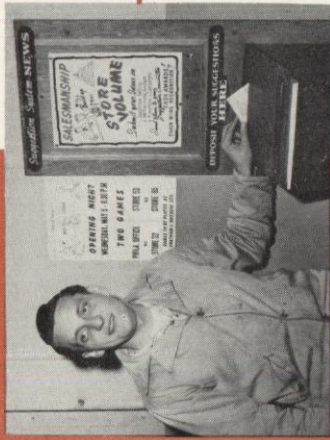
Operation of the Suggestion System which provides for cash awards is productive of suggestions leading to important improvements in operating methods. More than 700 suggestions were submitted in 1948.

The Food Fair Star, published ten times a year by and for employees, is an important factor in strengthening morale. More than 61,000 copies of The Star were printed and distributed during 1948.

Membership in Food Fair Service Clubs is open to all employees who have been associated with the Company continuously on a full-time basis for five years or more. Members receive gold emblems, bearing the familiar Food Fair tower, symbol of service.

Social and recreational activities, including seasonal sports, picnics and banquets, are sponsored throughout the organization. Prizes are donated by the Company.

A voluntary, cooperative group insurance plan provides better health and accident benefits than are required by statute. Practically all regular employees last year participated in our group life insurance plan.

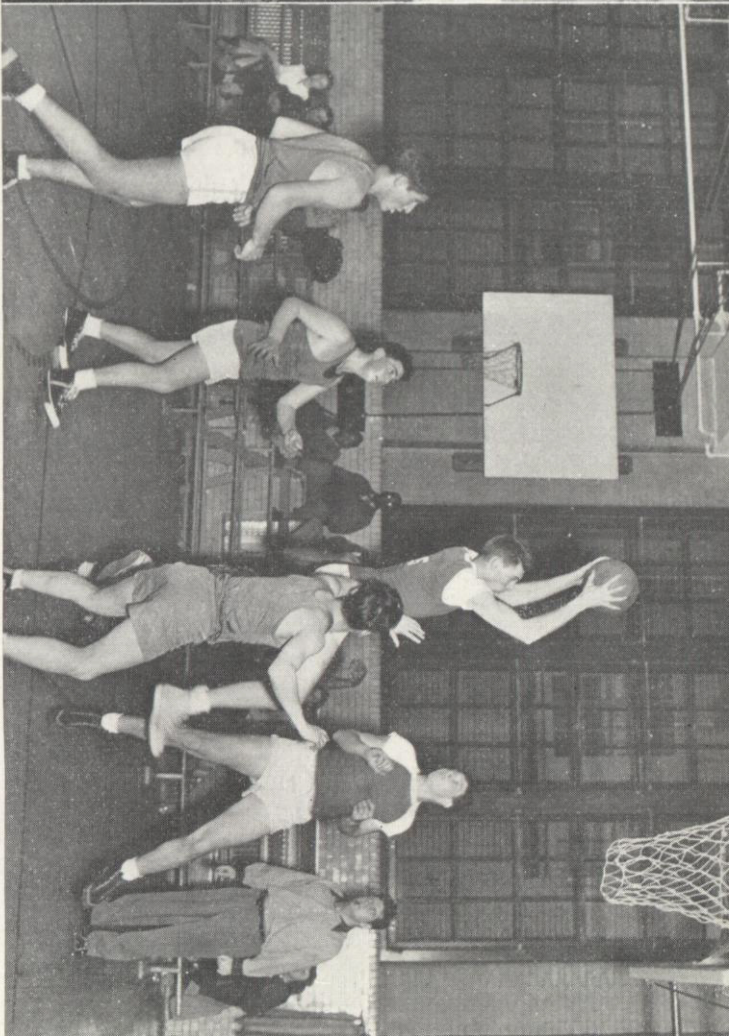


Employee is enrolled in Food Fair Service Club



Picnic furnishes fun for Food Fair employees

Store employes celebrate courtesy award



Sports build sound limbs, alert minds

New cafeteria for employes fills long felt need



Food Fair Supermarkets

NEW YORK

Brooklyn
Forest Hills
Astoria
Jackson Heights
Fresh Meadows

Newark (3)
Teaneck
Belleville
Collingswood
Camden
Trenton (3)
Atlantic City (3)
East Orange
Nutley

NEW JERSEY

Passaic (3)
Montclair
Paterson
West New York (2)
Haledon
New Brunswick (2)
Union City
Elizabeth (4)
Perth Amboy
Morristown
Irvington (2)
Englewood
Plainfield
Hackensack
Fairlawn
Jersey City (3)

PENNSYLVANIA

Philadelphia (13)
Harrisburg (3)
York
Columbia
Lebanon (2)
Lemoyne
Lancaster (2)
Allentown (3)
Reading (3)
West Reading
Bethlehem (2)
Easton
Chester (2)
Bryn Mawr
Coatesville
Jenkintown
Norristown

DELAWARE

Wilmington (2)

FLORIDA

Miami (2)
Coral Gables

MARYLAND

Baltimore (13)
Catonsville
Mt. Rainier

VIRGINIA

Alexandria



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